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Montgomery County Council considers ending 'phantom' pension contributions

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With revenue taking a new hit and advocates from residents to large public employee unions ramping up lobbying for resources, members of the Montgomery County Council are catching a clearer glimpse of the unprecedented and uncomfortable budget squeeze they face.

On Tuesday, they found themselves surrounded.

Union leaders representing government workers led a rally on the roof of the parking lot behind the council's office building, while parent and teacher groups gathered on the council's front steps. More than 400 government employees clanging blue and yellow cowbells chanted, "We've had enough!" Later, a series of budget hearings -- which began Monday and will run through Thursday -- continued inside, as waves of speakers sat in panels facing elected leaders with the power to say yes or no to funds for libraries, classrooms and health programs.

Council members were at the hub of a day of bad fiscal news, impassioned appeals and a proposal that could save millions of dollars next year but initially garnered a lukewarm reception.

The approaches of council members differed sharply. Council member Phil Andrews (D-Gaithersburg-Rockville) proposed legislation that would end controversial retirement benefits known as "phantom" cost-of-living increases.

Under an agreement last year, the county makes contributions to the pensions of general government workers, firefighters and police based on raises they did not receive. Ending that unusual practice would save \$7.2 million in the next fiscal year and more than \$200 million over 40 years, Andrews said.

"It's bad practice to tie pensions to salaries that aren't provided, and this is the year to change it, before it gets established and when there's a very clear rationale because of the extremely difficult fiscal year," Andrews said. "The county needs the money."

Meanwhile, council member Valerie Ervin (D-Silver Spring), a former labor organizer, joined three council colleagues at the rooftop rally and led employees in chants of "No Justice, No Peace!"

"Look around you and see who's had your back," Ervin said.

County Executive Isiah Leggett (D) made the deal for the phantom retirement increases last year as a consolation for unions that agreed to give up part of their negotiated raises, and Andrews was the sole vote against it. Several council members said Tuesday that they would consider undoing the arrangement. But other members joined Leggett in voicing concern that the move could put too much of a burden on county employees who are facing deeper proposed cuts.

Leggett's \$4.3 billion budget proposal includes 10 days of furloughs for many government workers, which amounts to a 3.8 percent reduction in pay. It also cuts more than 230 filled positions and eliminates raises and cost-of-living adjustments for police, firefighters and general government employees.

Several council members voiced support for those moves. "They know very well we don't have any options in this budget," said council President Nancy Floreen (D-At Large), though she voiced concern about the lowest-paid workers.

The latest discussions come as the Moody's bond rating agency put the county on a watch list for a possible downgrade from its highest Aaa rating because revenue is down more than anticipated and officials are relying on the county's reserve fund.

Top ratings are key to borrowing cheaply for county projects and are seen as an important endorsement of a jurisdiction's overall fiscal health.

The decision "reflects deterioration of the county's financial position driven primarily by income tax revenue shortfalls" as well as county plans for a "significant" drawdown of its reserves, according to a Moody's analysis that Leggett discussed with the council Tuesday.

Leggett also said that a March income tax distribution from the state was \$24.5 million below county estimates, which will mean more budget cuts this year.

It was the second time since Leggett proposed his budget on March 15 that officials have had to do last-minute improvising to counter a dimming fiscal picture.

On March 25, Leggett called for upping an energy tax increase he proposed for next fiscal year and imposing the tax in the current year to help county finances immediately. His original proposal called for increasing the tax by almost \$3 a month for the average family. His follow-up proposal raised that to \$5 a month.

Now, Leggett said he is developing a "revised savings target" to further bolster county reserves. Among the possibilities are cuts in capital projects and existing contracts and possible changes in major purchases, he said.

The union representing general county workers, the Municipal and County Government Employees Organization, launched what it called its "budget battle" Tuesday with its rooftop rally and appeals to the council. Union leaders say their members are being asked to make unfair sacrifices, and they placed the blame on county managers.

"During the good times, Montgomery County developed some bad habits -- including the development of a large, highly compensated management contingent that adds very little to the quality or quantity of services for residents, taxpayers and voters," MCGEO President Gino Renne testified at the hearing.